

CalSTRS

Investment Committee Monthly Status Report For

REAL ESTATE



TEACHERS' RETIREMENT BOARD

INVESTMENT COMMITTEE

SUBJECT: Monthly Status Report
c – Real Estate

ITEM NUMBER: 10

ATTACHMENT(S): 2

ACTION: _____

DATE OF MEETING: February 5, 2003

INFORMATION: X

PRESENTER(S): Mike DiRé

Executive Summary

As reported to the Investment Committee earlier, the real estate division has successfully leveraged a significant portion (\$1.5 billion) of the core holdings with a \$750 million Commercial Mortgage Backed Securities ("CMBS") offering. Due to the historically low interest rate environment, the average over the first five years of the loan is expected to be less than 4%. The effect on the return of the portfolio is dependent on the overall returns of the real estate portfolio but is expected to be very positive.

Leveraging the portfolio also has a significant effect on our monthly activity status report. In this transaction, staff circled \$1.5 billion in low risk assets and applied \$750 million in debt effectively decreasing the low risk portfolio by \$1.5 billion while increasing the moderate risk portfolio by \$750 million and, of course, adding \$750 million in cash to the CalSTRS cash account.

Beyond bringing the low and moderate risk portfolios more in balance with our stated objectives, the diversification goals for the low risk portfolio were also affected. Below is a chart that shows the change in the primary categories reported to the Investment Committee in the Activity Status Report.

	Low	Moderate	High
Goal	50%	25%	25%
October 2002	77%	12%	11%
December 2002	53%	32%	15%

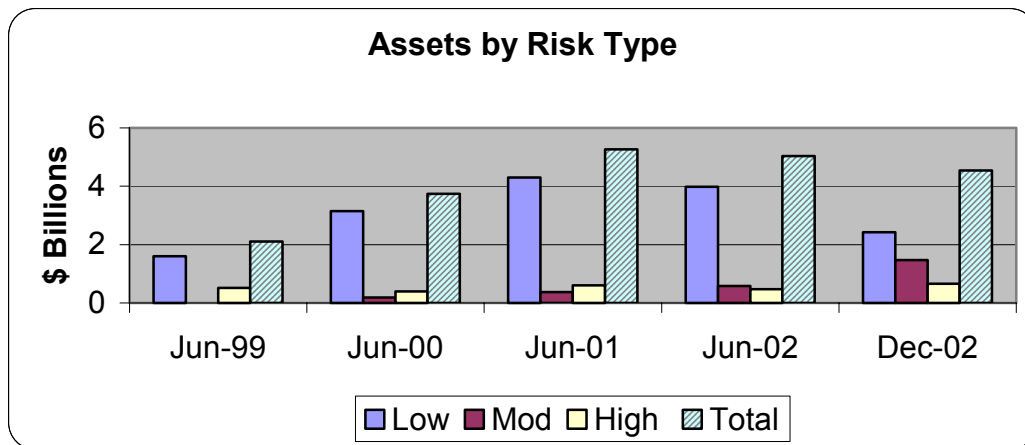
	Apartment	Industrial	Office	Retail
Goal	20%	25%	35%	20%
October 2002	23%	17%	53%	7%
December 2002	24%	12%	60%	4%

	West	Midwest	South	East
Goal	20%	15%	25%	40%
October 2002	32%	7%	17%	44%
December 2002	35%	4%	22%	39%

As we reported to the Investment Committee in December, staff is working with PCA to update both the bi-annual reports and the activity status reports to better reflect the effect of the leverage while updating the information in a way that is commensurate with the best practices in the market today. Staff and PCA will be available to answer questions.

In accordance with the Investment Management Plan, CalSTRS has established an allocation for investment real estate to 7% of the total assets. The primary role of investment real estate is to improve diversification of the overall investment portfolio. Secondary objectives are to generate an enhanced yield to the actuarial plan rate assumption, and to provide stable cash flows. The real estate portfolio will incorporate a combination of low, moderate, and high risk real estate investment strategies to implement the approved plan.

The table and charts below show the growth of the overall real estate portfolio over the past five years.

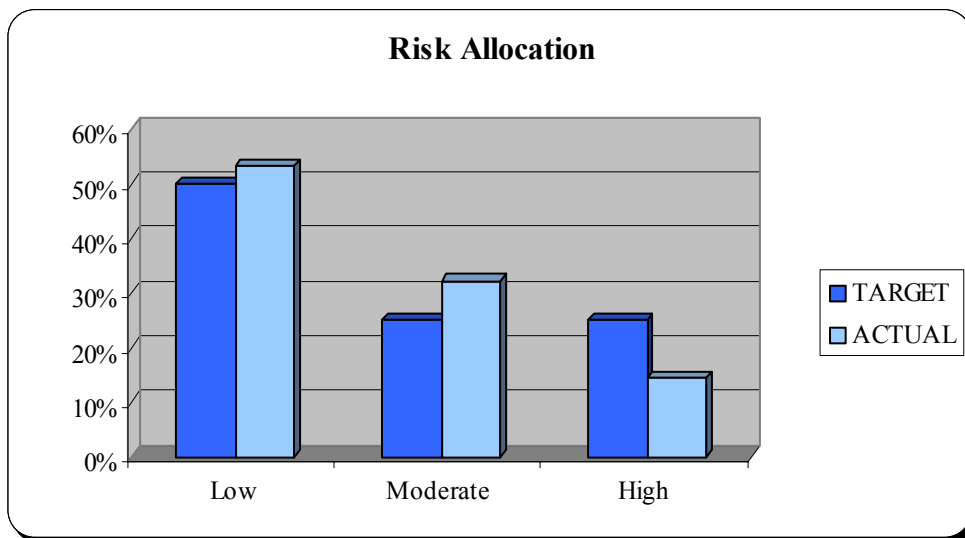


Growth of Real Estate Portfolio

	Jun-99	Jun-00	Jun-01	Jun-02	Dec-02
Low	\$1,597	\$3,152	\$4,300	\$3,979	\$2,421
Mod	\$0	\$189	\$368	\$585	\$1,466
High	\$511	\$399	\$602	\$470	\$659
Total	\$2,108	\$3,740	\$5,270	\$5,034	\$4,546

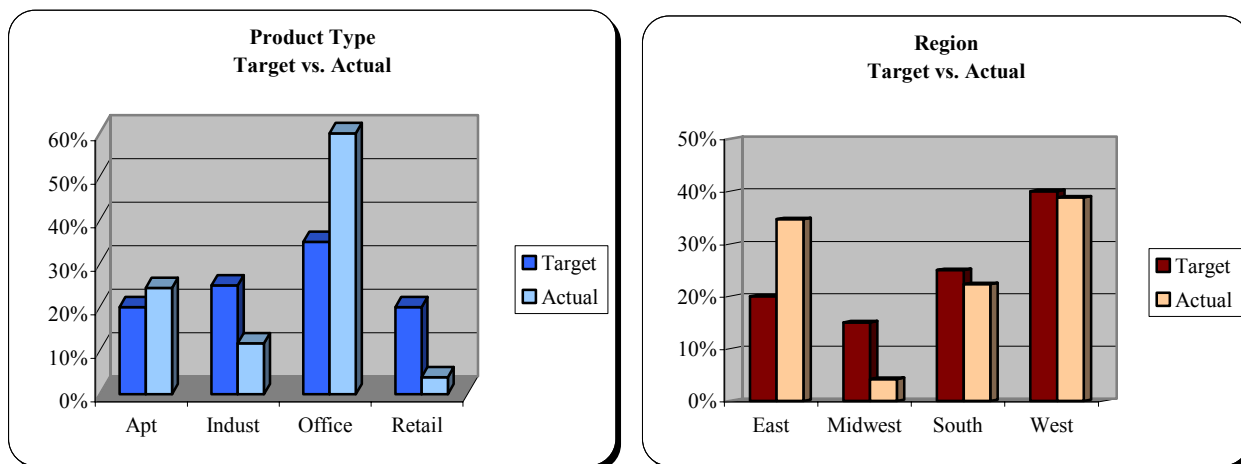
Graph shown in billions, table shown in millions

Targeted Risk Allocation Versus Actuals



The Low Risk portfolio is managed subject to diversification guidelines by product type and by regional area in the United States. The target allocation and the portfolio holdings as of December 31, 2002 are shown below.

Low Risk Portfolio - Target vs. Actual



The attached contains a summary of high risk opportunity fund commitments and capital accounts since inception. Also identified are specific transactions closed during the prior month and joint venture partnership activity to date.

CalSTRS REAL ESTATE OPPORTUNITY FUND ACTIVITY STATUS REPORT COMMITMENTS AND CAPITAL SUMMARY

As of December 31, 2002

Opportunity Fund		Date Fund Closed	Fund Size	STRS Commitment	Amount Funded by STRS	Unfunded Commitment	Since Inception	
							Returned Capital	Income Received
Colony II		Apr-95	\$625,000,000	\$150,000,000	\$146,789,147	0	\$81,461,126	\$68,133,798
M.Stanley II	(1)	Nov-95	1,051,000,000	200,000,000	253,928,985	0	185,669,606	180,930,569
Lazard Freres		May-96	645,000,000	150,000,000	150,000,000	0	55,437,571	45,887,944
Lazard Freres - Co-Investment		May-96						
AAC/UDR	(2)		26,984,444	26,984,444	26,984,444	0	26,984,444	23,511,286
Dermody	(3)		19,841,270	19,841,270	19,841,270	0	0	9,542,654
William E. Simon & Sons		Jan-01	306,650,000	76,662,500	69,163,678	7,498,822	1,383,232	241,768
William E. Simon - Co-Investment								
SKS	(4)	Jan-01	57,223,810	50,756,667	(6) 47,524,069	3,232,598	3,237,911	1,248,371
CIM Urban Real Estate Fund		Mar-01	178,947,369	45,000,000	2,444,490	42,555,511	1,541,976	0
Soros Real Estate Investors		Jul-01	1,000,000,000	75,000,000	24,020,657	50,979,343	0	0
M.Stanley IV		Dec-01	2,250,000,000	200,000,000	55,438,770	144,561,230	0	2,409,442
Lone Star IV		Dec-01	2,278,787,879	200,000,000	30,887,156	169,112,844	855,791	0
Beacon Capital Partners		Jul-02	740,000,000	50,000,000	10,000,000	40,000,000	0	0
Canyon-Johnson Urban Fund		Nov-02	271,677,914	50,000,000	8,937,080	41,062,920	7,463,711	142,044
CJUF - Co-Investment								
Sunset & Vine Project	(5)	Jul-02	47,050,000	20,000,000	18,556,392	1,443,608	0	0
Fortress Investment Fund II		Dec-02	1,067,000,000	150,000,000	11,230,912	138,769,088	0	0
Page Mill/DIVCO		Sep-02	255,000,000	75,000,000	0	75,000,000	0	0
TOTALS				\$1,539,244,881	\$875,747,049	\$714,215,964	\$364,035,368	\$332,047,876

- (1) "Amount Funded by CalSTRS" amount includes reinvestment proceeds, per Partnership Agreement.
(2) CalSTRS co-investment is in American Apartment Communities/United Dominion Realty Trust, Inc.
(3) CalSTRS co-investment is in DP Operating Partnership Limited (Dermody).
(4) CalSTRS co-investment is in SKS, an office development platform in San Francisco.
(5) CalSTRS co-investment is in the Sunset & Vine project, a multi-property type urban development in Hollywood.
(6) Commitment amount increased \$10,700,000 8/12/02 per recommendation by Manager

CalSTRS REAL ESTATE DIRECT ACQUISITIONS and DISPOSITIONS

December 31, 2002

ACQUISITIONS

<u>Property</u>	<u>ADVISOR</u>	<u>TYPE</u>	<u>ACQUISITION DATE</u>	<u>RISK</u>	<u>LOCATION</u>	<u>AMOUNT</u>	<u>DISPOSITION SALE DATE</u>	<u>IRR *</u>
Pershing Point Plaza	CB Richard Ellis	Office	December 27, 2002	Low	Atlanta	\$ 57,676,005		10.8%
Total Acquisitions						\$ 57,676,005		

DISPOSITIONS

Avery Pointe Apartments	SSR Realty Advisors	Apartment	5/17/00	Low	Ft. Worth, TX	\$ 21,000,000	November 19, 2002	13.7%
St James Place	SSR Realty Advisors	Apartment	12/29/98	Low	Bowie, MD	\$ 50,156,225	December 20, 2002	13.9%
Total Dispositions						\$ 71,156,225		

*Acquisitions - IRR represents projected after fee Dispositions - IRR represents since inception, after fee to CalSTRS

CalSTRS REAL ESTATE JOINT VENTURE PARTNERSHIPS

December 31, 2002

<u>Partnership</u>	<u>Fiduciary</u>	<u>Initial Funding Date</u>	<u>Type</u>	<u>Risk</u>	<u>Location</u>	<u>Commitment</u>	<u>Amount Funded Since Inception</u>	<u>Unfunded Commitment</u>
SF Waterfront Partners, LLC	The McMahan Group	October-01	Office/Mixed	High	San Francisco (Urban)	\$ 12,700,000	\$ 2,867,891	\$ 9,832,109
Waterton Residential Property	The McMahan Group	June-02	Apartment	High	National	\$ 85,000,000	\$ 40,230,000	\$ 44,770,000
Fairfield Urban Housing	The McMahan Group	September-02	Apartment	High	California	\$ 75,000,000	\$ 35,213,917	\$ 39,786,083
AIMCO Student Housing	Heitman Capital Mgmt		Apartment	High	National	\$ 150,000,000	\$ -	\$ 150,000,000
Total JV Partnerships						\$ 322,700,000	\$ 78,311,808	\$ 244,388,192